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NATIONAL TEA CO.

ANNUAL REPORT TO SHAREHOLDERS

1957

Better eating *for Better Living*

1957 ANNUAL REPORT TO SHAREHOLDERS

DIRECTORS

NORBERT L. CHAPLICKI
Vice President

JOHN F. CUNEO*
President of The Cuneo Press, Inc.

D. LLOYD McCLOCKLIN
Assistant Secretary of Loblaw Groceterias, Ltd.

HARLEY V. McNAMARA*
President and Chief Executive Officer

ROY S. McPHERSON
Partner, Thorne, Mulholland, Hawson & McPherson (chartered accountants)

RICHARD G. MEECH
Vice President, Secretary and Treasurer of Loblaw Groceterias Co., Ltd.

GEORGE C. METCALF*
Chairman of the Company and President of Loblaw Groceterias Co., Ltd.

CLAUDE H. WEBSTER
Executive Vice President

W. GARFIELD WESTON
Chairman of the Board of George Weston, Ltd.

**Members of the Executive Committee*

OFFICERS

GEORGE C. METCALF
Chairman of the Company

HARLEY V. McNAMARA
President and Chief Executive Officer

CLAUDE H. WEBSTER
Executive Vice President

NORBERT L. CHAPLICKI
Vice President

VAL S. BAUMAN
Vice President

IRA O. SHY
Vice President

CHARLES WOODING
Treasurer

ROBERT E. KOEHLER
Comptroller and Asst. Treasurer

GEORGE L. ANDERSON
Assistant Treasurer

WILLIAM T. MORGAN, JR.
Secretary

RICHARD J. RADEBAUGH
Assistant Secretary

WILLIAM J. LEDERER
Assistant Secretary

TRANSFER AGENTS

THE FIRST NATIONAL BANK OF CHICAGO
Chicago, Illinois

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK
New York, New York

REGISTRARS

CONTINENTAL ILLINOIS NATIONAL BANK & TRUST COMPANY OF CHICAGO
Chicago, Illinois

THE NEW YORK TRUST COMPANY
New York, New York

TRUSTEES AND PAYING AGENTS

3½% Debentures
Chemical Corn Exchange Bank
New York, New York

5% Debentures
J. P. Morgan & Co.
New York, New York

OUR COVER

The husky bread-winner illustrated on our cover to depict the growth of our Country and our Company is represntative of the millions of Americans who have found better eating for better living by shopping in increasing numbers at National Food Stores.

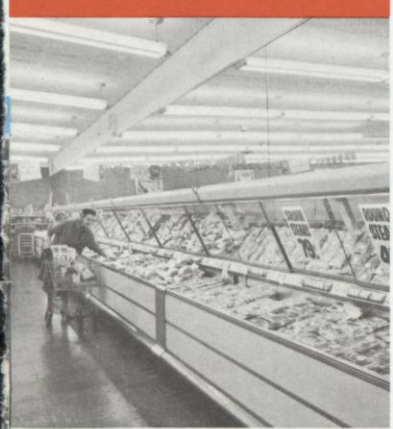
The construction in the background is the steel structure of the new Chicago Sun-Times building which is now completed as illustrated below. This new Chicago landmark, rising between the massive Merchandise Mart and the beautiful Wrigley Building on the Chicago River was dedicated in the name of "The People's Right To Know" on January 31, 1958. Newest of America's great newspaper shops, the Chicago Sun-Times building is another monumental symbol dramatizing to the free world, a free press, for a free people, with a free government.

NATIONAL TEA CO.

HOME OFFICE: 1000 N. CROSBY ST. • CHICAGO 10, ILL.

NATIONAL FOOD STORES

FINANCIAL HIGHLIGHTS

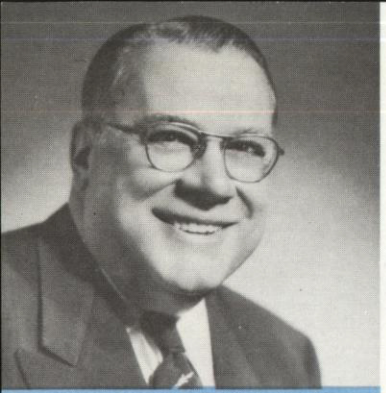


	1957	1956
OPERATIONS:		
Sales	$681,131,958	$617,635,555
Profit before income taxes	16,773,752	14,937,800
Federal income taxes	8,720,000	7,930,000
Net profit	8,053,752	7,007,800
Net Profit—Percent to sales	1.18	1.13
Cash dividends	4,292,508	4,240,978
Earnings retained in the business	3,761,244	2,766,822
INVESTMENT:		
Working capital	48,498,985	42,633,490
Plant and equipment	53,834,125	43,143,201
Long-term debt	42,539,220	30,103,154
Common shareholders' equity	61,800,977	56,285,514
PER COMMON SHARE:		
Profit	3.76*	3.30
Dividends	2.00	2.00
Equity	28.52	26.54
Shares outstanding	2,167,068	2,120,714
TOTAL STORES		
—at end of year:	883	761

*Computed on average shares outstanding.

NATIONAL BRANCH OFFICES and WAREHOUSES • Chicago • Minneapolis • Milwaukee • Indianapolis • Detroit • Kalamazoo • St. Louis • New Orleans • Memphis • Davenport • Denver • Sioux City

NATIONAL FOOD STORES Serving The States of • Alabama • Arkansas • Colorado • Illinois • Indiana • Iowa • Kentucky • Louisiana • Michigan • Minnesota • Mississippi • Missouri • Nebraska • North Dakota • Ohio • South Dakota • Tennessee • Wisconsin • Wyoming



HARLEY V. McNAMARA

1957 MANAGEMENT REPORT TO THE SHAREHOLDERS OF NATIONAL TEA CO.

The year of 1957 has been another year of expansion as your company moved into the states of Colorado, Nebraska and Wyoming and strengthened its position in other states. Major acquisitions added chains in Denver, Colorado; Sioux City, Iowa; Nashville, Tennessee; Mobile, Alabama, and (in January 1958) Peoria, Illinois to the ever-increasing territory of "National Land". This expansion, which occurred largely in the last half of 1957, together with the normal growth from new and relocated stores, is being reflected currently in sharply increased sales (up 23.49% in the first period of 1958 over the previous year) and in greater profits. The improvement in earnings is not experienced so quickly as is the increase in sales, because there are many expenses of setting the new acquisitions into operation which first must be absorbed. Nevertheless, profits for 1957 were up a satisfying 15% over 1956, whereas sales for the year increased 10%. It is expected that the full effect of the expansion will be realized in 1958.

NATIONAL Sales:

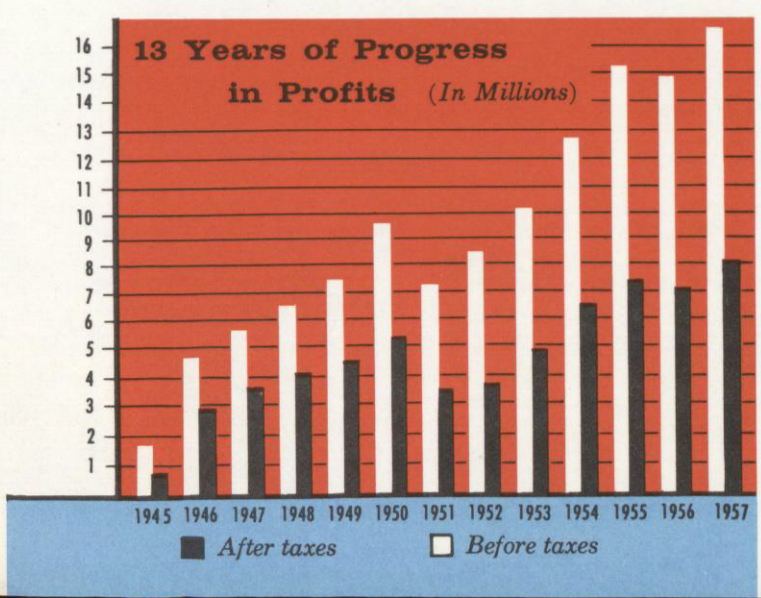
The upward climb of sales continued in 1957 for the thirteenth consecutive year as the total volume reached $681,131,958 for 1957, up 10.28% from last year's record $617,635,555. Greater sales average per store has been the most important factor in this period of growth, as the average sales per store has more than doubled in the last 10 years.

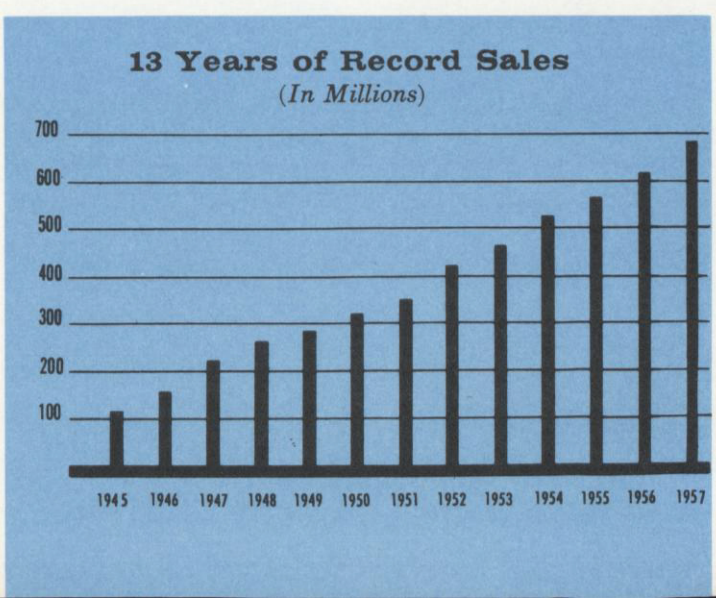
NATIONAL Profits:

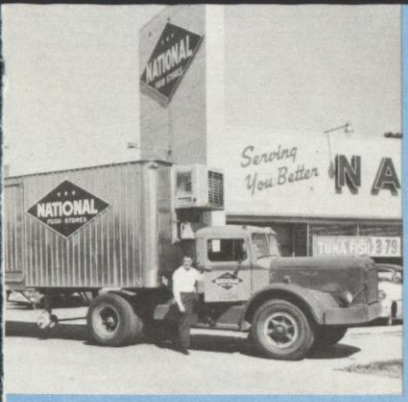
Net profit of $8,053,752 for 1957 is more than a million dollars greater than last year's $7,007,800. On the basis of the average number of shares outstanding during the year, this represents a return of $3.76 per share as compared with $3.30 per share on a slightly smaller number of shares outstanding in 1956.

Many factors enter into the consolidated profit picture for any particular year but in 1957 these stand out: Costs of expansion have been absorbed but benefits will be reaped in the future; a softening economy with reduced take home pay in certain cities undoubtedly has affected our sales and profits in those areas; increased competition is a constant factor in the food chain field; and reduced profits from other operations (meat packing, coffee, etc.) reflect declines in those industries during 1957.

In spite of all these factors, we are pleased to report that 1957 was a successful year whether measured by return on average investment (13.6% vs 12.8%) or by profit as a percent of sales (1.18% vs 1.13%).







NATIONAL Dividends:

Quarterly cash dividends were paid in 1957 at the rate of 50c per share ($2.00 for the year), continuing the rate established in 1956. The company has consistently followed a conservative dividend program in order to retain sufficient funds for growth and expansion. The 1957 dividend payout was about 53% of profits.

NATIONAL Operations:

The company had 883 retail stores in operation on December 28, 1957, an increase of 122 stores during the year. During 1957 we opened 61 new stores, of which 18 were relocations of old stores, and closed 38 other stores. 128 stores were acquired through acquisition, of which 11 small stores were subsequently sold to employees or otherwise disposed of.

Store openings in 1957 did not come up to expectations largely because the tight money situation existing during much of the year restricted builders and promoters in their plans. The situation has eased somewhat in recent months and we look forward to a substantial number of 1958 openings from the 130 new leases executed as of December 28, 1957.

Two new branch office and warehouse distribution centers were acquired in 1957 in Denver, Colorado and Sioux City, Iowa, bringing the total number of such centers to 12.

NATIONAL Financial:

Substantial changes in the company's balance sheet occurred in 1957 as gross assets reached the 140 million dollar mark. Additional funds for expansion were obtained on August 1, 1957, through the sale of $12,000,000 principal amount of 5% sinking fund debentures due 1977. The equity of common shareholders reached $61,-800,977 at year end ($28.52 per share), representing an increase of $5,515,463 during the year. Net working capital was $5,865,495 greater at year end, as indicated in the following summary:

NATIONAL Source of Funds:

Net income	$ 8,053,752
Deferred Federal income taxes (relating to accelerated depreciation)	662,000
5% sinking fund debentures	12,000,000
Sale of 2600 common shares to optionees	86,878
Common shares issued in exchange for capital stock of subsidiary	1,875,720
	$22,678,350

Distribution of National's Sales Dollar

	1957
Merchandise	.8121
Employees	.1055
Taxes	.0181
Rent, depreciation and repairs	.0271
Other expenses	.0254
Dividends paid to shareholders	.0063
Profit retained in the business	.0055
	1.0000

1957 MANAGEMENT REPORT CONTINUED...

NATIONAL Disposition of Funds:

Net expenditure for plant and equipment in excess of depreciation and amortization	$ 4,205,073
Acquisitions of plant and equipment, prepaid expenses, etc., less long term debt assumed	6,586,249
Retirement of long term debt	500,000
Cash dividends on common shares	4,292,508
Other dispositions, net	1,229,025
	$16,812,855
Increase in net working capital	5,865,495

NATIONAL Employee Relations:

Our report on operations for 1957 would not be complete without a word of appreciation for the individual and collective efforts of more than 22,000 co-workers who make up the National Tea Co. team. They are the ones to whom our customers look for courteous service and who have put substance into our cherished goal of Serving You Better—Serving You More.

The rapid expansion of the company has presented a tremendous challenge to the management group, all of whom have worked long and hard to accomplish the results of which we are justly proud. Opportunities for advancement within the company are virtually unlimited and we are constantly striving to educate and upgrade any of our employees who desire to get ahead. At the present time we have 10 employees in college training programs under National Tea Co. scholarships.

The stock option plan approved by shareholders on March 21, 1957, has been put into effect and options for 42,400 shares have been granted to 108 key employees. The options do not become exercisable until 1958, but the interest expressed by these employees assures the success of the plan in promoting a deeper interest in the company.

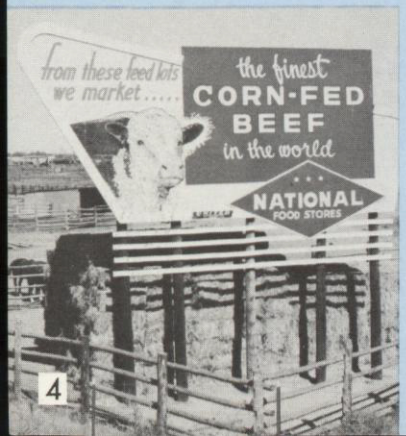
NATIONAL Future:

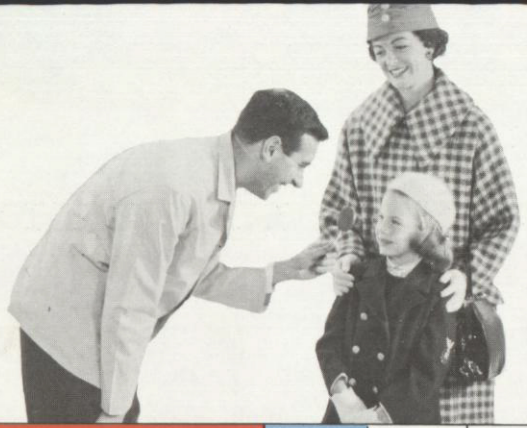
First reports for 1958 indicate that we have made a good start on what should be a record year of sales and profits. Sales are currently running at a rate in excess of three quarters of a billion dollars per year and we are looking forward to the time in the not too distant future when National will reach the billion dollar level. We believe this to be our part in a growing and dynamic economy.

H. V. McNamara

Chicago, Illinois
February 28, 1958

H. V. McNamara
President





SUMMARY OF FINANCIAL HIGHLIGHTS

Continued Progress Report 1945—1957

Following Reported in Thousands (000 Omitted)

YEAR	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945
SALES	$681,132	$617,636	$575,585	$520,300	$462,281	$405,220	$361,321	$315,218	$274,332	$270,176	$217,915	$157,641	$106,868
NET PROFIT Before Federal Taxes	16,774	14,938	15,237	12,739	10,047	8,407	7,202	9,764	7,419	6,483	5,772	4,761	1,838
FEDERAL TAXES Normal	8,720	7,930	8,000	6,220	4,900	4,520	3,545	4,050	2,848	2,433	2,175	1,830	925
FEDERAL TAXES Excess Profits	...	...	...	...	250	170	50	500	...	...	...	...	...
NET PROFIT After Federal Taxes	8,054	7,008	7,237	6,519	4,897	3,717	3,607	5,214	4,571	4,050	3,597	2,931	913
COMMON SHARES Number Outstanding	2,167	2,121	2,120	1,970	1,707	1,568	1,541	1,541	769	769	641	631	623

Following Reported in Actual Amounts

YEAR	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945
Earnings Per Common Share (1)	$ 3.76 (4)	$ 3.30	$ 3.41	$ 3.20	$ 2.65	$ 2.05	$ 2.14	$ 3.31	$ 2.89	$ 2.54	$ 2.72	$ 2.25	$ .665
EARNINGS Per Cent to Sales	1.18%	1.13%	1.25%	1.25%	1.06%	.92%	1.00%	1.65%	1.66%	1.50%	1.65%	1.86%	.85%
DIVIDENDS Paid Per Common Share (1)	2.00	2.00	2.00 (3)	1.60 (2)	1.60	1.60	1.60	1.60	1.25	.9375	.625	.425	.425
INVESTMENT Per Common Share (1)	28.52	26.54	25.23	23.30	20.81	19.28	18.75	18.40	16.09	14.50	13.48	11.51	9.825
CURRENT ASSETS Ratio to Current Liabilities	2.46	2.49	2.77	2.50	2.53	2.17	2.43	2.02	2.48	2.40	2.18	1.97	2.79
STORES With Meat Departments	866	760	744	710	664	668	596	591	596	569	556	491	452
STORES Without Meat Departments	17	1	0	1	24	97	28	43	59	90	146	202	297
TOTAL STORES Year Ending December 31	883	761	744	711	688	765	624	634	655	659	702	693	749

(1) Common stock split two for one on December 20, 1950. Earnings for all years shown on equivalent basis.
(2) Plus extra 2% stock dividend paid to shareholders of record on November 16, 1954.
(3) Includes extra 40 cents cash dividend paid on January 17, 1956 to shareholders of record on January 6, 1956.
(4) Earnings for 1957 computed on average shares outstanding.

NATIONAL FOOD STORES

CONSOLIDATED

ASSETS

	Dec. 28, 1957	Dec. 29, 1956
CURRENT ASSETS:		
Cash	$ 23,522,036	$ 20,770,076
U. S. Government securities	499,158	1,494,907
Accounts receivable	4,930,797	3,122,861
Inventories, at lower of cost or market—		
Merchandise	51,176,788	42,942,119
Supplies	1,604,532	1,148,910
Total current assets	$ 81,733,311	$ 69,478,873
OTHER ASSETS:		
Prepaid expenses and deferred charges	$ 3,459,940	$ 1,980,829
Investment in Everywoman's Magazine, at cost	300,000	300,000
Investment in Johnson Biscuit Company	572,882	—
	$ 4,332,822	$ 2,280,829
PLANT AND EQUIPMENT, at cost, less reserves for depreciation:		
Land	$ 1,804,854	$ 1,339,542
Buildings	8,072,775	5,986,682
Fixtures and equipment	59,074,236	49,879,417
Reserves for depreciation	(26,977,374)	(23,545,674)
Leasehold improvements, less amortization	10,051,511	7,461,439
	$ 52,026,002	$ 41,121,406
Excess of cost of investment in branches and subsidiaries over underlying book values at dates of acquisition—in process of amortization	1,808,123	2,021,795
	$ 53,834,125	$ 43,143,201
	$139,900,258	$114,902,903

BALANCE SHEET

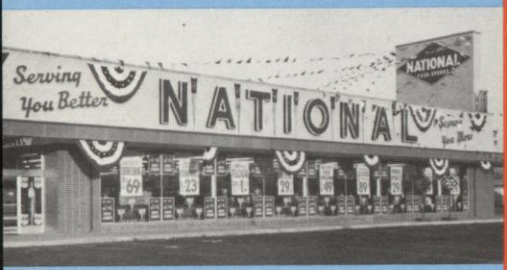
NATIONAL TEA CO.
AND SUBSIDIARIES

LIABILITIES

	Dec. 28, 1957	Dec. 29, 1956
CURRENT LIABILITIES:		
Current maturity of long-term debt (including $50,000 debt of subsidiary)	$ 550,000	$ 500,000
Accounts payable	22,074,471	17,306,283
Accrued liabilities	4,612,610	3,386,091
Federal income taxes	5,997,245	5,653,009
Total current liabilities	$ 33,234,326	$ 26,845,383
LONG-TERM DEBT:		
3½% sinking fund notes of subsidiary, due 1971	$ 936,023	$ —
4% promissory notes, due 1973	14,700,000	15,200,000
5% sinking fund debentures, due 1977	12,000,000	—
3½% sinking fund subordinated debentures, due 1980 (convertible into common shares through 1965)	15,000,000	15,000,000
Less—$100,000 principal amount held in treasury, at cost	(96,803)	(96,846)
	$ 42,539,220	$ 30,103,154
RESERVES:		
Deferred Federal income taxes (relating to accelerated depreciation)	$ 1,720,000	$ 1,058,000
Self-insurance	581,951	586,689
Minority interest in consolidated subsidiary	23,784	24,163
	$ 2,325,735	$ 1,668,852
CAPITAL STOCK AND SURPLUS:		
Preference shares—authorized 30,000 shares	$ —	$ —
Common shares, par value $5—		
Authorized, 4,300,000 shares		
Issued: 1957—2,181,630 shares; 1956—2,132,910 shares	10,908,150	10,664,550
Reserved for options and conversions—284,360 shares		
Paid-in surplus	17,601,835	15,986,574
Earned surplus	33,882,251	30,121,007
	$ 62,392,236	$ 56,772,131
Less—Cost of treasury common shares— 1957—14,562 shares; 1956—12,196 shares	591,259	486,617
	$ 61,800,977	$ 56,285,514
	$139,900,258	$114,902,903

See notes to financial statements.

NATIONAL FOOD STORES



STATEMENTS OF CONSOLIDATED INCOME AND SURPLUS

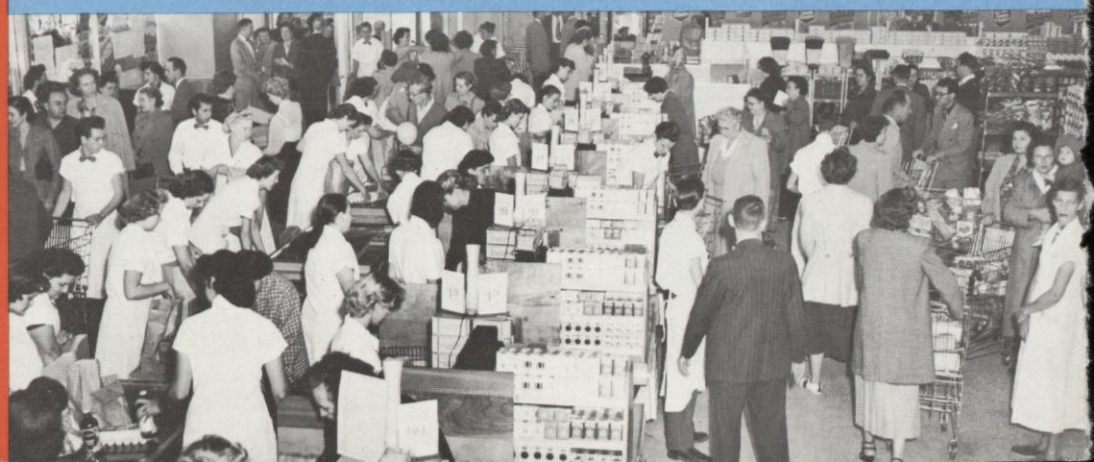
NATIONAL TEA CO. and SUBSIDIARIES

INCOME — Fifty-two weeks	1957	1956
SALES	$681,131,958	$617,635,555
COSTS AND EXPENSES:		
Cost of sales and expenses	$646,818,309	$587,978,146
Depreciation and amortization	6,697,392	5,327,012
Rent	9,415,827	8,284,941
Interest	1,426,678	1,107,656
Federal income taxes	8,720,000	7,930,000
	$673,078,206	$610,627,755
NET INCOME	$ 8,053,752	$ 7,007,800

PAID-IN SURPLUS	
BALANCE AT DECEMBER 29, 1956	$15,986,574
ADD OR (DEDUCT)—	
Excess of market value over par value of common shares issued in exchange for capital stock of subsidiary acquired	1,632,120
Excess of cost over option price of 2,600 treasury common shares sold to officers and employees	(16,859)
BALANCE AT DECEMBER 28, 1957	$17,601,835

EARNED SURPLUS	
BALANCE AT DECEMBER 29, 1956	$30,121,007
NET INCOME FOR THE YEAR	8,053,752
	$38,174,759
DEDUCT—Dividends paid on common shares ($2.00 per share)	4,292,508
BALANCE AT DECEMBER 28, 1957	$33,882,251

See notes to financial statements.



NOTES TO FINANCIAL STATEMENTS

Long-term Debt

The 4% promissory notes require annual prepayments of $500,000 in 1958, $600,000 in 1959 through 1961, $700,000 in 1962 through 1964 and $1,000,000 in 1965 through 1972.

The 5% sinking fund debentures require mandatory sinking fund payments sufficient to retire $480,000 debentures in each of the years 1959 through 1972 and $600,000 of debentures in each of the years 1973 through 1976. Additional optional sinking fund payments may be made each year sufficient to retire at the same price debentures not in excess of 50% of the mandatory retirements.

The 3½% subordinated debentures require annual sinking fund payments of $350,000 in 1959 through 1969, $360,000 in 1970 through 1974 and $370,000 in 1975 through 1979. The debentures are convertible into common shares at $52.75 through 1959, $55.25 through 1962 and $57.75 per share through 1965.

Dividend Restriction

Earned surplus of $25,242,508 is restricted as to the payment of cash dividends on and the purchase of common shares at December 28, 1957; net current assets remaining after giving effect to the payment of dividends or reacquisition of stock must equal at least $25,000,000.

Litigation

Suits have been filed in 1952 and 1956 against the company and certain of its officers and directors, by three alleged stockholders, represented by the same attorneys, attacking (1) a stock option granted to Mr. McNamara in 1945 when he entered the company's employ, (2) the sales by Messrs. Cuneo and Rasmussen, respectively, to Loblaw Groceterias Co., Limited, in January, 1956, of all or substantially all of their stockholdings, and (3) purchases made by the company from certain companies in which Mr. Cuneo is financially interested. No liability has been asserted against the company in either of the above suits.

Stock Options

As of December 28, 1957, option agreements are outstanding with officers and employees granting them the right at various dates prior to October 26, 1959, to purchase 5,500 common shares at $33.25 per share, 800 common shares at $43.70 per share, and 600 common shares at $35.39 per share. Options for 4,500 shares are presently exercisable and options for an additional 2,400 shares will become exercisable on October 27, 1958. 6,900 common shares held in the treasury are reserved for the exercise of these options.

Also at December 28, 1957, stock options for 42,100 common shares at $35.75 per share and 300 common shares at $37.53 had been granted under the plan approved by shareholders on March 21, 1957, none of which were exercisable until January 21, 1958. Each option expires five years after the grant but not later than January 1, 1966. 20% of the shares covered by each option becomes exercisable ten months after grant of the option and an additional 20% becomes exercisable each year thereafter.

Lease Commitments

At December 28, 1957, the company and its subsidiaries have 740 leases expiring after three years from that date (some of which contain percentage rental clauses) with minimum annual rentals amounting to approximately $10,693,000 exclusive of taxes, insurance and maintenance payable by the lessee. Of this amount, approximately 67% applies to leases expiring within 10 years.

ARTHUR ANDERSEN & Co.

120 South LaSalle Street
Chicago 3

To the Shareholders,
National Tea Co.:

We have examined the consolidated balance sheet of NATIONAL TEA Co. (an Illinois corporation) AND SUBSIDIARIES as of December 28, 1957, and the related statements of consolidated income and surplus for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had made a similar examination for the fifty-two weeks ended December 29, 1956.

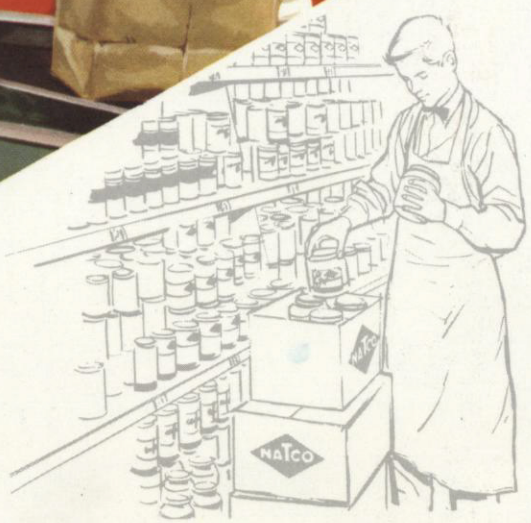
In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and surplus present fairly the financial position of National Tea Co. and Subsidiaries as of December 28, 1957, and the results of their operations for the fifty-two weeks then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fifty-two week period.

Chicago, Illinois
February 15, 1958

ARTHUR ANDERSEN & CO.

NATIONAL FOOD STORES

NATIONAL
FOOD STORES



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